

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 ABF-01 AID-05 CIAE-00 COME-00 EB-08

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02

OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 L-03 DODE-00 PA-01 PRS-01 AGRE-00

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FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC 7075

INFO AMEMBASSY NEW DELHI

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NEW DELHI FOR FINATT

E.O. 11652: N/A

TAGS: EFIN, CE

SUBJ: UNP AND LSSP CHALLENGE VALIDITY OF REVALUATION

REF: COLOMBO 0942

1. SUMMARY. TWO PARTIES AT OPPOSITE ENDS OF SRI LANKA POLITICAL SPECTRUM HAVE RAISED QUESTION OF CONTINUED LEGALITY OF MARCH 12 REVALUATION OF RUPEE. FINANCE MINISTER HAS USED REVALUATION AS EXCUSE TO FORCE DOWN PRICES AND CHALLENGES OPPOSITION TO TAKE ISSUE TO COURT. IF OPPOSITION GOES TO COURT AND WINS, IT WOULD BE BLAMED FOR RENEWED INFLATION. EMBASSY WOULD APPRECIATE INFORMATION ON IMF ATTITUDES TOWARD REVALUATION. END SUMMARY.

2. UNITED NATIONAL PARTY (UNP) AND TROTSKYITE LANKA SAMAJA PARTY (LSSP), REPRESENTING RIGHT AND LEFT WINGS OF SRI LANKA POLITICAL SPECTRUM, HAVE RAISED QUESTION ABOUT CON-

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TINUED LEGALITY OF RUPEE REVALUATION.

3. GAZETTE NOTICE WHICH REVALUED RUPEE EFFECTIVE MARCH 12 CITED SECTION 73 OF MONETARY LAW ACT AS LEGAL AUTHORITY. SECTION 73 DEALS WITH ADJUSTMENT OF PARITIES OF FOREIGN CURRENCIES WITH RESPECT TO RUPEE AND AUTHORIZES CENTRAL BANK GOVERNOR TO FIX PARITIES ON BASIS OF PAR VALUES (WHICH SECTION

3 OF ACT DEFINES IN TERMS OF GOLD) AND WITHIN MINIMUM AND MAXIMUM RATES APPROVED BY IMF. IF PAR VALUE NOT AGREED WITH IMF, PARITY MAY BE CALCULATED ON RATES PREVALENT IN INTERNATIONAL FOREIGN EXCHANGE MARKETS.

4. ON MARCH 31, EMBASSY RECEIVED COPY OF LEAFLET CIRCULATED BY UNKNOWN SOURCE WHICH SUGGESTS THAT SECTION 69 DEALING WITH ALTERATION OF PAR VALUE OF RUPEE IS APPLICABLE SECTION OF ACT. UNDER THIS SECTION, ANY CHANGE IN PAR VALUE REQUIRES PARLIAMENTARY APPROVAL EXCEPT IN EMERGENCY SITUATION IN WHICH CASE PRESIDENT MAY ALTER PAR VALUE FOR PERIOD OF TEN DAYS. IF ALTERNATION NOT RATIFIED BY PARLIAMENT WITHIN THIS TEN DAY PERIOD, PAR VALUE OF RUPEE WILL REVERT TO PERVIOUS VALUE. IN EVENT PARLIAMENT WAS DISSOLVED PRIOR TO DATE PRESIDENT ORDERED CHANGE IN PAR VALUE, ORDER WILL REMAIN IN EFFECT FOR TEN DAYS AFTER FIRST MEETING OF NEW PARLIAMENT AND, IF NOT RATIFIED BY PARLIAMENT, THEN EXPIRE.

5. PARLIAMENT HAS NOT BEEN DISSOLVED BUT ONLY PROROGUED. THEREFORE, IF SECTION 69 IS APPLICABLE PORTION OF LAW, IT WOULD APPEAR THAT REVALUATION CEASED TO BE LEGALLY EFFECTIVE ON MARCH 22.

6. AS A RESULT OF MYSTERIOUS LEAFLET, WHICH RECEIVED WIDE CIRCULATION, THIS LEGAL QUESTION HAS NOW BEEN PUBLICLY RAISED BY UNP MEMBER OF PARLIAMENT, A.C.S. HAMEED, AND IN LSSP'S PAPER, "SOCIALIST NATION." FINANCE MINISTER FELIX BANDARANAIKE HAS REPLIED THAT REVALUATION IS LEGAL UNDER SECTION 73 WHICH DOES NOT REQUIRE PARLIAMENTARY RATIFICATION. MINISTER ARGUED LIMITED OFFICIAL USE

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THAT SINCE US SUSPENDED CONVERTIBILITY OF DOLLAR IN 1971, PAR VALUES NO LONGER HAVE ANY MEANING AND SECTION 69 IS IN-OPERATIVE.

7. FINANCE MINISTER HAS ISSUED COMMUNIQUE CHALLENGING UNP (HE DOES NOT MENTION LSSP) TO TAKE ISSUE TO SUPREME COURT. IN A RATHER CURIOUS STATEMENT, HOWEVER, MINISTER SUGGESTS "UNP FEARS THE CONSEQUENCES OF INVITING THE SUPREME COURT TO MAKE AN ORDER WHICH WILL HAVE THE EFFECT OF PUTTING UP PRICES THEREBY BRINGING DOWN ON THEIR HEADS THE WRATH OF THE PEOPLE." AS A LAWYER, MINISTER BANDARANAIKE MUST SURELY REALIZE THIS STATEMENT IMPLIES UNP WOULD WIN IF THEY TOOK MATTER TO COURT.

8. UNP DOES HAVE A PROBLEM. USING REVALUATION AS EXCUSE, FINANCE MINISTER HAS BEEN CUTTING PRICES RIGHT AND LEFT. EFFECTIVE APRIL 5, HE ORDERED ACROSS THE BOARD PRICE REDUCTIONS OF 10 PERCENT ON ALL IMPORTED GOODS AND ON ALL LOCALLY PRODUCED ITEMS USING IMPORTED MATERIALS WHICH HAVE NOT ALREADY LOWERED PRICES. ORDER TAKES NO ACCOUNT OF WHETHER GOODS WERE

IMPORTED BEFORE OR AFTER REVALUATION. STATE AND PRIVATE COMPANIES HAVE BEEN TOLD TO ADVERTISE IN NEWSPAPERS SHOWING OLD AND NEW PRICES. MINISTER SAID ANY COMPANY THAT DOES NOT COMPLY WILL HAVE ITS IMPORT ALLOCATION WITHDRAWN. THUS, DESPITE LONG-TERM DETRIMENTAL EFFECTS OF REVALUATION, MINISTER'S HIGHHANDED TECHNIQUES ARE BRINGING DOWN PRICES. IF UNP OR OTHER POLITICAL PARTY TAKES MATTER TO COURT BEFORE ELECTIONS THEY WOULD BE BLAMED FOR REVERSING DOWNWARD PRICE TREND, AND RULING SRI LANKA FREEDOM PARTY (SLFP) WOULD HAVE READY-MADE CAMPAIGN ISSUE. EVEN AFTER ELECTIONS, WHICHEVER PARTY COMES TO POWER WILL BE FACED WITH PROBLEM OF HOW TO UNDO DAMAGE OF REVALUATION AND FORCED PRICE REDUCTIONS. SHOULD UNP WIN ELECTIONS, ANY EFFORT TO DEVALUE RUPEE AND ALLOW PRICES TO RISE AGAIN SURE TO BE ATTACKED BY SLFP.

9. ACTION REQUESTED: AS FAR AS EMBASSY KNOWS, THERE HAS BEEN NO OFFICIAL REACTION BY IMF TO RUPEE REVALUATION. EMBASSY LIMITED OFFICIAL USE

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WOULD APPRECIATE ANY INFORMATION DEPARTMENT CAN PROVIDE ON IMF ATTITUDES ABOUT REVALUATION AND WHAT ACTION, IF ANY, IMF PLANS TO TAKE.
REED

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